OVERVIEW

Management Audit of the Hawaii Tourism Authority

Report No. 02-04, February 2002

Summary

In 1997, the Economic Revitalization Task Force was convened to look for ways to improve Hawaii's economy. To implement the task force's recommendations, the Legislature in 1998 established the Hawaii Tourism Authority. A 13-member Board of Directors heads the authority. Among other things, the law authorizes the board to create a vision and develop a long-range plan for tourism in Hawaii, develop and implement the state tourism strategic marketing plan, and make and execute contracts and agreements. All of the authority's revenues come through the Tourism Special Fund, which collects 37.9 percent of the State's transient accommodations tax revenues. During FY2000-01, the fund had $67.7 million in revenues.

We found that the Hawaii Tourism Authority is plagued by an alarming array of management deficiencies. The authority's Board of Directors has the principal responsibility for fulfilling the authority's mission of managing the strategic growth of Hawaii's visitor industry. We found that the board has failed to provide the vision, leadership, and direction necessary to ensure that the authority achieves its primary mission. The authority's strategic planning process was deficient, and measuring the direct impact of the authority's efforts is difficult. We found suspect the history and justification behind the authority's decision to contract with Fishman Enterprises, Inc. for up to $546,000 in compensation (plus certain expenses) to serve as chief executive officer overseeing the staff and operations of the authority for a three-year period. Also, the contract contains a number of unfavorable provisions. For example, the contract allows the State to terminate the contractual relationship with Fishman Enterprises for a number of causal reasons, but not for "poor performance."

We also found unclear and deficient management and operational leadership. For example, the authority has yet to establish some of the basic organizational fundamentals and controls; this has led to internal conflict over the role board members should play in the authority's operations. Moreover, we found that the board should have been more careful about ethics laws and public meeting laws.

In addition, we found that the Hawaii Revised Statutes do not accurately reflect the authority's duties and responsibilities.

Furthermore, we found that inadequate management of the authority has not ensured the appropriate use of $144.5 million in state resources. The authority is unable to adequately account for its significant financial and human resources. For example, since its inception, the authority has awarded about 390 contracts and agreements totaling over $137 million. Yet Fishman Enterprises' failure to ensure the implementation of adequate internal controls over contracting has resulted in

serious deficiencies in the contracting process and opens the authority to waste and fraud. Without this contracting framework, which should include written policies and procedures, the authority is also missing key documents supporting the contracting process and is inadequately monitoring contracts.

The authority also entered into two contracts totaling over $135 million with the Hawaii Visitors and Convention Bureau that contain provisions disadvantageous to the State. Multimillion dollar payments are made to the bureau with little justification. Compounding these problems are deficiencies in the authority's personnel and organizational framework. We found outdated and inaccurate position descriptions, unclear lines of authority, and staff frustration.

Finally, we found that the authority has taken initial steps to adequately manage the Hawai'i Convention Center; however a number of issues are still unresolved. Also, oversight responsibilities for the convention center are not legislatively assigned.

Recommendations and Response

We made a number of recommendations to the Board of Directors of the Hawaii Tourism Authority to correct the problems we identified. We also recommended that the Legislature clarify in statutes the authority's duties and responsibilities.

In written comments on a draft of our report, the authority's board chair accepted and agreed with our recommendations. He noted that the audit provides a good template for improvement. The authority's current executive director stated that the authority looks forward to implementing our recommendations without reservations, except for the recommendation to tie contractors' remuneration to measurable deliverables. The executive director also affirmed the authority's "responsibility to the public to be a fiscally responsible organization." The director of the Department of Business, Economic Development and Tourism (DBEDT) commented that he believes our report will help the new chief executive officer to better manage the authority. The DBEDT director also discussed issues relating to the measurement of the authority's success. All of the above parties commenting on the draft provided additional information and viewpoints.

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